

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**ENERGY DIVISION**

**RESOLUTION E-3958**

**October 27, 2005**

**R E S O L U T I O N**

Resolution E-3958. San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) request establishment of memorandum accounts to record call center costs associated with the California Alternate Rates for Energy (CARE) program. Approved with modifications.

By SDG&E Advice Letter 1721-E/1551-G, filed on August 26, 2005 and by SoCalGas Advice Letter 3524, filed on August 29, 2005.

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**SUMMARY**

**This Resolution approves SDG&E's and SoCalGas' requests to establish memorandum accounts to record call center costs associated with the California Alternate Rates for Energy (CARE) program as modified below. These costs include the call center related labor costs and indirect costs associated with the CARE program.**

- The utilities are authorized in this resolution to only track these costs for future recovery. They are not authorized to recover these costs through annual transfers to other balancing accounts, as proposed by them.
- Both utilities are directed to change the text in their Preliminary Statements to reflect that the costs recorded in the tracking accounts will be reviewed in their next general rate case proceedings, or in a separate application. After costs tracked in the accounts are reviewed and approved for recovery by the Commission, they may be added to base rates for recovery.

**BACKGROUND**

**Call Center costs were disallowed from CARE budgets.**

SDG&E and SoCalGas filed Low Income Energy Efficiency (LIEE) and CARE applications for 2005 program plans and funding on July 1, 2004. Both utilities submitted applications containing call center labor and indirect costs as part of their respective CARE budgets. In Decision (D.) 05-05-019<sup>1</sup>, Table 1, the Commission disallowed from SDG&E's proposed budget, \$166,400 in CARE call center labor costs and \$111,913 in call center indirect costs. Additionally Table 1 shows that the Commission disallowed from SoCalGas' proposed budget, \$453,000 in CARE call center labor costs from the CARE Outreach budget category.

**In D.05-04-052, the Commission found that the call center costs were costs the utility would have to incur regardless of the presence of low income programs and that the costs should not be a part of public purpose program funding.**

Conclusion of Law (COL) 15 in D. 05-04-052 states that call center staff costs should be recovered in a utility's base rates rather than as part of public purpose program funding. Ordering Paragraph (OP) 19 in D. 05-04-052 provides that the utilities may recover call center costs disallowed by the decision in base rates.

**SDG&E and SoCalGas propose to record in Call Center Memorandum Accounts call center costs disallowed in D.05-04-052 for future recovery through the advice letter process.**

On August 26, 2005 SDG&E filed Advice Letter (AL) 1721-E/1551-G, and on August 29, 2005 SoCalGas filed AL 3524-G. In these advice letters SDG&E and SoCalGas request authority to establish the Call Center Memorandum Accounts (CCMA). In AL 1721-E/1551-G, SDG&E proposes to record in the CCMA the incremental labor and indirect expenses incurred as a result of the CARE related program beginning January 1, 2005. SDG&E proposes to allocate the costs recorded in this account 77% electric and 23% gas consistent with the allocation of operating revenue adopted in D.04-12-015 which established base rates effective January 1, 2004. SDG&E proposes to transfer at the end of each year the

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<sup>1</sup> D.05-05-019 issued May 13, 2005, Order Correcting Errors in D.05-04-052. D.05-07-007 issued July 15, 2005, Order Correcting Error in D.05-05-019, corrected a double disallowance for the call center costs and indirect costs.

electric portion of costs recorded in the CCMA to its electric distribution fixed cost account (EDFCA), and the gas portion to the gas fixed costs account (GFCA). SDG&E proposes that costs transferred from the CCMA to the EDFCA and the GFCA be recovered through the advice letter process. SDG&E proposes to continue to record incremental CARE related call center costs in the CCMA until they are placed into base margin through its next Cost of Service proceeding.

In AL 3524, SoCalGas proposes to allocate at the end of each year the balance in the CCMA to the core fixed cost account (CFCA) and the noncore fixed cost account (NFCA) based on the adopted allocation of SoCalGas' base margin. SoCalGas proposes to amortize the balances in the CFCA and NFCA in connection with its annual regulatory account balance update for rates effective on January 1 of the following year. This account update is done by advice letter. SoCalGas proposes to continue to record incremental call center costs in the CCMA until they are placed into base margin through its next General Rate Case.

## **NOTICE**

Notices of SDG&E's AL 1721-E/1551-G and SoCalGas' AL 3524 were made by publication in the Commission's Daily Calendar. SDG&E and SoCalGas state that copies of the advice letters were mailed and distributed in accordance with Section III-G of General Order 96-A. SDG&E and SoCalGas also served their advice letters on parties in R.04-01-006, the proceeding to establish policies procedures, and program budgets for low-income assistance programs.

## **PROTESTS**

Advice Letter AL 1721-E/1551-G and Advice Letter 3524 were protested by the Office of Ratepayer Advocates (ORA) on September 15, 2005. SDG&E and SoCalGas made a joint reply to the ORA protest on September 22, 2005.

**ORA recommends that SDG&E's and SoCalGas' proposals be denied.**

ORA protests the establishment of the memorandum accounts on the basis that D. 05-04-052 did not explicitly authorize the memorandum accounts. ORA states that the advice letters should be rejected since no explicit orders were made by the Commission. ORA recommends denial of the requests to establish the call

center memorandum accounts pending a finding by the Commission that clarifies the intent of D. 05-04-052.

**SDG&E and SoCalGas assert that D.05-04-052 allows them to seek recovery of the call center CARE-related costs.**

On September 21, 2005 SDG&E and SoCalGas submitted a joint reply to ORA's protest. SDG&E and SoCalGas maintain that the Call Center CARE-related costs are real costs for which the utilities should be reimbursed. While the utilities agree that D. 05-04-052 did not explicitly direct the utilities to file for memorandum account treatment to recover the call center costs, they submit that there is nothing inappropriate in requesting the establishment of a memorandum account. They note that OP 19 of D.05-04-052 allows them to seek recovery of these costs in base rates. They state that a memorandum account is simply a mechanism to record costs into an account for future recovery; it does not guarantee recovery of the costs. SDG&E and SoCalGas state that the Commission should deny ORA's protest and approve their proposals to establish memorandum accounts, or alternatively allow them to adjust base rates on January 1, 2006 to recover the Call Center CARE-related costs.

## **DISCUSSION**

**SDG&E and SoCalGas propose to record CARE-related call center costs in memorandum accounts and transfer balances to other regulatory accounts for annual recovery as filed in advice letters.**

Both SDG&E and SoCalGas propose to revise their respective Preliminary Statement tariff sheets to record and recover the CARE call center costs, with interest, in a memorandum account through the end of each year. The utilities propose to transfer the balances from their proposed memorandum accounts to other regulatory accounts for recovery through the advice letter process.

**D. 05-04-052 did not authorize recovery of these costs through the advice letter process but indicated that the utilities may recover these costs in base rates.**

SDG&E's and SoCalGas' proposals to record CARE call center costs with interest and subsequently transfer the balances to other regulatory accounts for recovery

through the advice letter process are not authorized by D. 05-04-052. Ordering paragraph (OP) 19 of that decision states:

“SDG&E and SoCalGas may recover in base rates the call center costs we disallow in this decision.”

As identified by ORA’s protest, Decision 05-04-052 does not provide for the process that SDG&E and SoCalGas propose in their advice letters. The order does state that the utilities may recover in base rates the call center costs disallowed in the decision. Thus, it is appropriate that the utilities track these costs in a memorandum account for possible future recovery in base rates. Since D.05-04-052 applies to 2005 revenue requirements, these costs should be tracked beginning January 1, 2005.

D.05-04-052 does not specify the process by which the utilities may recover the call center costs in base rates. It is premature to allow SDG&E and SoCalGas to transfer costs tracked in their proposed memorandum accounts to other accounts for amortization via the advice letter process as the utilities have proposed. Absent specific authority as to the recovery process, the costs the utilities track in their proposed memorandum accounts must be reviewed by the Commission and parties in a formal proceeding before they are put in to rates.

**Administrative costs must be reviewed for reasonableness before they may be recovered in rates.**

Originally, when the CARE program was initiated<sup>2</sup>, the utilities proposed a wide range of administrative costs associated with the program such as general administration, outreach, billing and billing changes, certification and recertification and verification. It was anticipated that the utilities would incur both start-up costs and recurring costs during the first year of the program, and that utility-specific costs and budgets would be identified under a reasonableness review. Decision (D.) 89-09-044 states that: “Administrative budgets cannot be guaranteed rate recovery until they are found to be

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<sup>2</sup> D. 89-09-044 established the Low-Income Ratepayer Assistance program (LIRA), later changed to CARE. (32 CPUC 2d)

reasonable”, and “administrative costs must be reviewed for reasonableness before they may be recovered in rates. Booked costs will be reviewed to ascertain whether they are indeed incremental or had been provided for in the utility’s base rates.”

ORA provided a review of CARE costs for the utilities this last year, and the Commission denied recovery of the identified call center costs found in the SDG&E and SoCalGas CARE budgets but provided that the utilities may recover these costs in base rates.

**Call Center costs should be tracked until they may be reviewed in a formal application for ultimate disposition.**

It is appropriate for SDG&E and SoCalGas to track these costs until they may be reviewed by the Commission and parties in a formal application where the utilities can quantify and provide details on what costs they have tracked and why these costs should be recovered in base rates. SDG&E and SoCalGas should modify their proposed memorandum accounts by deleting language referencing the transfer of balances to other accounts for annual recovery. Instead, SDG&E and SoCalGas may request recovery of the balances recorded in the accounts in their test year 2008 general rate cases or by separate applications.

The memorandum accounts shall be interim and shall only track, with interest, call center costs that are no longer included in CARE budgets pursuant to D.05-04-052. SDG&E and SoCalGas will have the opportunity to recover costs recorded in these accounts in base rates after the costs are reviewed by the Commission in future proceedings. SoCalGas and SDG&E shall rename the memorandum accounts Interim Call Center Memorandum Accounts, or ICCMA. These accounts shall be eliminated after all costs recorded in the accounts have been addressed by the Commission in formal proceedings.

The ordering paragraphs of this resolution specify modifications to the utilities’ proposed tariffs that we require.

We deny ORA’s protest to reject SDG&E’s and SoCalGas’ proposal to record these costs in a memorandum account. We allow SDG&E and SoCalGas to establish the ICCMA to track call center costs, and require modifications to tariffs proposed by the utilities in their advice letters.

## **COMMENTS**

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, the draft resolution was issued for comment to all parties no later than 30 days prior to being considered by the Commission. SDG&E and SoCalGas submitted comments on the draft resolution on October 14, 2005 seeking clarification of an ORA audit referred to by the draft resolution. Revisions were made to reflect that ORA reviewed, rather than audited the CARE costs addressed by D.05-04-052. No other comments were received.

## **FINDINGS**

1. Decision 05-04-052 found that call center costs attributable to the CARE program were costs the utility would have to incur regardless of the presence of low income programs and that the costs should not be a part of public purpose program funding.
2. Decision 05-04-052 disallowed call center costs from the CARE budgets of SDG&E and SoCalGas and stated that the utilities may recover these costs in base rates.
3. SDG&E filed AL 1721-E/1551-G on August 26, 2005, and SoCalGas filed AL 3524 on August 29, 2005. SDG&E and SoCalGas request to establish Call Center Memorandum Accounts to record and annually recover through advice letter filings the call center costs disallowed by D.05-04-052.
4. ORA requests rejection of the SDG&E and SoCalGas advice letters on the basis that D.05-04-052 did not explicitly authorize the memorandum accounts.
5. SDG&E's and SoCalGas' requests to record call center costs with interest and subsequently transfer the balances to other regulatory accounts for recovery through the advice letter process is not authorized by D. 05-04-052.

6. It is appropriate for SDG&E and SoCalGas to track the call center costs with interest in a memorandum account for future recovery in base rates pending review by the Commission.
7. SDG&E and SoCalGas should not recover call center costs tracked in the ICCMA prior to these costs being reviewed by the Commission in a formal proceeding, and a process for recovery of the costs established.
8. Administrative budgets cannot be guaranteed rate recovery until they are found to be reasonable.
9. SDG&E and SoCalGas should modify their proposed memorandum accounts, deleting references to transferring the balances to other regulatory accounts for recovery through the advice letter process and should rename the memorandum accounts the Interim Call Center Memorandum Account(s) or ICCMA, as specified in the ordering paragraphs of this Resolution.
10. SDG&E and SoCalGas should request recovery of the ICCMA balances in their 2008 general rate case or by a separate application.
11. ORA's protest to deny SDG&E's and SoCalGas's advice letters is denied. The utilities' proposals are modified as specified in this Resolution.

**THEREFORE IT IS ORDERED THAT:**

1. The request of San Diego Gas & Electric Company to establish the memorandum accounts as requested in Advice Letters 1721-E and 1551-G is approved as modified below.
2. The request of Southern California Gas Company to establish a memorandum account as requested in Advice Letter 3524 is approved as modified below.
3. San Diego Gas & Electric Company shall rename the CCMA as the Interim Call Center Memorandum Account (ICCMA) and shall replace Electric Preliminary Statement, CCMA, Section LL. 5., "Disposition" as proposed in AL 1721-E with:



“Costs will be recorded to the ICCMA until such time as they are reviewed by the Commission and authorized for recovery by the Commission through base rates in SDG&E’s next general rate case or cost of service proceeding, or in a separate proceeding initiated by a formal application.”

4. San Diego Gas & Electric Company shall rename the CCMA as the Interim Call Center Memorandum Account (ICCMA) and shall replace Gas Preliminary Statement, CCMA, Section L. 5., “Disposition” as proposed in AL 1551-G with:

“CARE related call center costs will recorded to the ICCMA until such time as they are reviewed by the Commission and authorized for recovery by the Commission through base rates in SDG&E’s next general rate case or cost of service proceeding, or in a separate proceeding initiated by a formal application.”

5. Southern California Gas Company shall rename the CCMA as the Interim Call Center Memorandum Account (ICCMA) and shall replace the last paragraph of its Preliminary Statement Part VI, CCMA, as proposed in AL 3524 with:

“CARE related call center costs will be recorded to the ICCMA until such time as they are reviewed by the Commission and authorized for recovery by the Commission through base rates in SoCalGas’ next general rate case, or in a separate proceeding initiated by a formal application.”

6. ORA’s protest of SDG&E Advice Letters 1721-E/1551-G and Southern California Gas Company Advice Letter 3524 is denied.
7. Within 7 days of today’s date, SDG&E shall file a supplement to 1721-E/1551-G and SoCalGas will file a supplement to Advice Letter 3524 to make the tariff revisions required by this Order. The supplements shall replace each

respective advice letter in its entirety and shall be effective on today's date subject to Energy Division determining that it is in compliance with this Order.

8. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 27, 2005; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
PRESIDENT  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
DIAN M. GRUENEICH  
JOHN A. BOHN  
Commissioners